

**WRITTEN STATEMENT OF  
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INTERNAL REVENUE SERVICE  
BEFORE THE  
U.S. HOUSE OF REPRESENTATIVES  
COMMITTEE ON INTERNATIONAL RELATIONS  
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS AND  
SUBCOMMITTEE ON MIDDLE EAST AND CENTRAL ASIA  
ON  
SYRIA AND THE UNITED NATIONS OIL-FOR-FOOD PROGRAM  
JULY 27, 2005**

## **INTRODUCTION**

Chairman Rohrabacher and Mr. Delahunt, Chair Ros-Lehtinen and Mr. Ackerman, and distinguished members of the Subcommittees, I appreciate the opportunity to discuss the contributions of the Internal Revenue Service Criminal Investigation Division (IRS-CI) regarding Treasury's responsibility to repatriate the funds of the former regime to the Iraqi people.

My testimony today will only summarize information obtained by IRS-CI special agents as part of a joint working group with the Department of Defense, various intelligence agencies, State Department, Department of Homeland Security, and Treasury.

The Department of Treasury, armed with executive orders and United Nations Resolutions, was tasked with identifying and tracing assets belonging to the former Hussein regime for repatriation to the Iraqi people. In this Treasury directed effort, IRS-CI partnered with the Department of Defense, Defense Intelligence Agency and other intelligence agencies, State Department, Department of Homeland Security and other Treasury bureaus to accomplish this mission. From May 2003 through March 2005 IRS-CI deployed 17 special agents to Baghdad to identify and trace assets belonging to the former Hussein regime as well as investigate insurgency financing. These agents worked with the Department of Defense to obtain the documents and perform interviews of individuals that had knowledge of the various methods used by the regime to obtain money for Iraq one of which was a program to generate money for oil. Additional IRS-CI agents were assigned to jump teams created to follow international leads that were developed by the special agents in Iraq.

## **IRAQI ASSETS WORKING GROUP**

During the spring of 2003, Treasury along with Department of Defense, Defense Intelligence Agency, State Department, IRS-CI, Department of Homeland Security, and other agencies, started a working group to locate assets that had been either removed by the former regime or that were not within Iraq's control as a result of the various schemes used by the regime. The purpose of this working group was to identify the assets abroad; make diplomatic contacts with the countries that held the assets and

request the countries repatriate those assets back to the rightful control and ownership of the Iraqi people. IRS-CI's role in this working group was the identification and tracing of these assets. As part of this working group IRS-CI agents were sent to various countries worldwide including Syria.

During the course of the IRS-CI's efforts to identify and trace assets for repatriation, agents uncovered bank accounts in various countries that contained proceeds of oil sales from Iraq to those countries. We do not know the full universe of Iraqi assets amassed by Saddam Hussein and the former Government of Iraq, however, Treasury and IRS-CI's financial investigation to date indicates that the former regime accumulated significant wealth from a complex web of financial activities. The information contained in this written statement is derived from interviews and documents reviewed during meetings with officials of the Iraqi State Oil Marketing Organization (SOMO) and Syrian Commercial Bank of Syria (CBS).

### **SYRIAN TRADE PROTOCOL AND COMMERCIAL BANK OF SYRIA (CBS)**

During October, 2003, Special Agents from IRS-CI and the Immigration and Customs Enforcement (ICE) traveled to Damascus, Syria, and other Middle Eastern and European countries to identify and trace assets for repatriation. The agents met with officials of the Iraqi State Oil Marketing Organization (SOMO) and officials of the Syrian banking community who provided answers to questions and details of Iraqi records held at CBS. The interviews and documents revealed an oil sales agreement between Iraq and Syria established in June 2000. As part of the mechanism to handle the funds generated from the sales of oil, the CBS created bank accounts for the SOMO. In Syria the proceeds from oil sales were split into two accounts. Sixty percent of the revenue was placed in a "trade account" at the CBS; the remaining funds (40%) were deposited into a "cash account" at the CBS.

#### **TRADE ACCOUNT**

Under the Syrian protocols, the former Hussein regime was required to use the money in the trade account to purchase goods from vendors and businesses in Syria. The Iraqi government would negotiate contracts with Syrian companies to provide merchandise, once the merchandise was received in Iraq and verified, SOMO would direct the CBS by letter to pay a specific amount to a Syrian supplier from the trade account. The letter from SOMO contained two authorized signatures of SOMO officials and a "secret number" which identified the letter as official.

#### **CASH ACCOUNT**

The 40% cash account was set up with a standing agreement with SOMO that when the account balance reached \$1 million the funds were automatically transferred to an account at the Syrian Lebanese Bank in Beirut, Lebanon. These bank accounts were set up in the names of various companies or individuals. In addition to the automatic transfers there were times when SOMO would send a letter directing the withdrawal of cash from the cash account. The letter was sent by authorized officials from SOMO containing two signatures, a "secret number" and the names of the officials who were

authorized to receive the cash. The letter was sent approximately ten days in advance of the officials showing up at the bank to receive the cash. Syrian banking officials stated that the cash pickups were sporadic and occurred approximately every two to three months.

Eventually, the cash account funds were deposited into bank accounts in the Central Bank of Iraq, Rasheed Bank, or Rafidian Bank in Iraq. Additionally, currency was removed from the cash account and transported via diplomatic pouch to various Iraqi embassies or deposited into the vault at the Central Bank of Iraq.

## **POST OPERATION IRAQI FREEDOM ACCOUNT ACTIVITY**

In late March 2003, at the start of Operation Iraqi Freedom, the bank no longer received directions from SOMO. The last bank statement sent to SOMO was dated February 28, 2003. CBS combined the cash and trade account into one account. This was done without any authorization from SOMO. Syrian banking officials stated that the bank records are very clear and that the exact amount in each account at the time the accounts were merged is reflected in the bank statement.

The reason the accounts were combined, according to CBS officials, was because numerous Syrian suppliers began complaining to the Federation of Syrian Chambers of Commerce in May 2003 that they were owed large sums of money for merchandise shipped to Iraq for which they had not been paid. The Federation of Syrian Chambers of Commerce discussed this matter with the Syrian Ministry of Economy & Trade who ultimately decided to pay legitimate contracts held by Syrian companies from the Iraqi trade account because of their concern that many Syrian businesses would go bankrupt if the money was not paid. These contracts were submitted to Syrian banking officials who reviewed them personally before payment was made to the supplier. The Federation of Syrian Chambers of Commerce performed an independent audit of the contracts which had been paid to determine the validity of the contracts. Syrian bank officials commented that the suppliers provided various documents including contracts, shipping documents, country of origin and records showing the manufacturing and transportation of the goods to Iraq. These bank officials indicated that some suppliers did not have copies of the contracts but had sufficient documentation to justify payment of the contract. These same officials further explained that great care was taken in reviewing these requests for payment and that approximately \$200 million had been paid out of the trade account to Syrian suppliers. These officials indicated that many of the suppliers who were paid had a history of supplying merchandise to Iraq and had previously been paid by authorized letter from SOMO. They further commented that many other Syrian supplier requests were not paid because they lacked documentation or were first time suppliers and may very well have legitimate claims for payment. Syrian officials estimated that the unpaid claims were approximately \$200 million. CBS froze all Iraqi accounts in July 2003 after receiving a letter from Gassan Al-Rafai, Syrian Minister of Economy & Trade, directing the freezing of the accounts. At that time the accounts contained \$262,878,142 in the combined cash/trade account and approximately \$3,764,800 in various ministry accounts.

## **IRAQI STATE OIL MARKETING ORGANIZATION (SOMO) OFFICIALS**

SOMO officials accompanied IRS-CI and ICE agents during the interviews with CBS officials. SOMO compared all CBS bank records relating to the trade and cash account with SOMO records. SOMO's audit of the accounts indicates considerably more money paid out than was stated by the CBS banking officials (SOMO figures of \$578,552,720 compared to CBS estimates of \$200 Million). A preliminary accounting by SOMO of what was generated, transferred out, paid out, and remains on deposit pertaining to the Syrian Trade Protocol between Iraq and Syria follows:

- From June 2000 until July 2003 a total of \$3,449,528,207.33 was generated from the sale of Iraqi oil products, a majority of which was crude oil.
- From June 2000 until February 2003 a total of \$1,801,246,959 was put into the CBS trade account under the Syrian Trade Protocol.
- From June 2000 until February 2003 a total of \$1,200,831,306 was put into the CBS cash account and then wired shortly after deposit to a SOMO account in Beirut.
- Since March 2003 CBS combined the trade & cash accounts and a total of \$447,449,942 has been paid into the CBS trade account from March sales and accrued payments.
- From March 2003 SOMO's combined CBS trade & cash account held \$842,143,630. Of this \$1,712,720 was paid out of the account with SOMO's authority and \$578,552,720 was paid out without SOMO's authority. (CBS would not provide copies of the approximate 370 contracts established between Syrian businessmen and Iraq under the Trade Protocol that could substantiate the \$578,552,720 paid out of the trade account.)
- In October 2003 SOMO's combined CBS trade & cash account held \$261,878,142 which had been frozen in July 2003.
- Additionally there were six other accounts at CBS for the various Iraqi ministries that were titled: Iraqi Airline, Iraqi Embassy, Iraqi Interest Section, Iraqi Railroad, Iraqi Commercial Attaché, and Iraqi Commercial Office. Approximately \$3,764,800 in these accounts was frozen in July 2003.

## **CONCLUSION**

I appreciate this opportunity to provide information concerning IRS-CI efforts in the identification and tracing of assets belonging to the former Hussein regime for repatriation to the Iraqi people. I wish to thank the distinguished members for this opportunity to appear before you and I will be happy to answer any questions you may have.